Understanding the Realities of the Fresh Produce Marketing System: Barriers and Opportunities

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Top Food Industry Trends

- Shoppers have migrated towards retailers with strong value for money credentials; on-going channel-blurring trend
- Many retailers have lowered prices to close the gap with discount competitors but with difficulty
- Retail strategies include new pricing initiatives, format development, e.g., smaller, price impact, and fresh food formats by non-traditional grocery retailers (Walgreen's, Target P-Fresh)
- Cost-cutting to maintain margins, seeking efficiency gains
- Lowering inventory levels, SKU RAT, painful lessons already
- Retail corporate restructuring to eliminate duplication and generate cost savings and reorganization of produce procurement
- Store brand/private label growth

Store formats used by US shoppers in the preceding 30 days (% having shopped the format)

Percent of Shoppers	2007	2011
Supermarket/full service	87	89
Supercenter	44	59
Club/warehouse store	21	27
Discount store/mass	12	19
Limited-assortment store	11	18
Organic/specialty store	9	15
Dollar store	1	2

Source: US Grocery Shopper Trends 2011, FMI. Survey of 2,048 shoppers.

US Consumers: Annual Trips/Household to Grocery Store Formats Only (excluding other types of food stores), 1995, 2001 v. 2011

Source: Food Industry Review 2011 Edition.

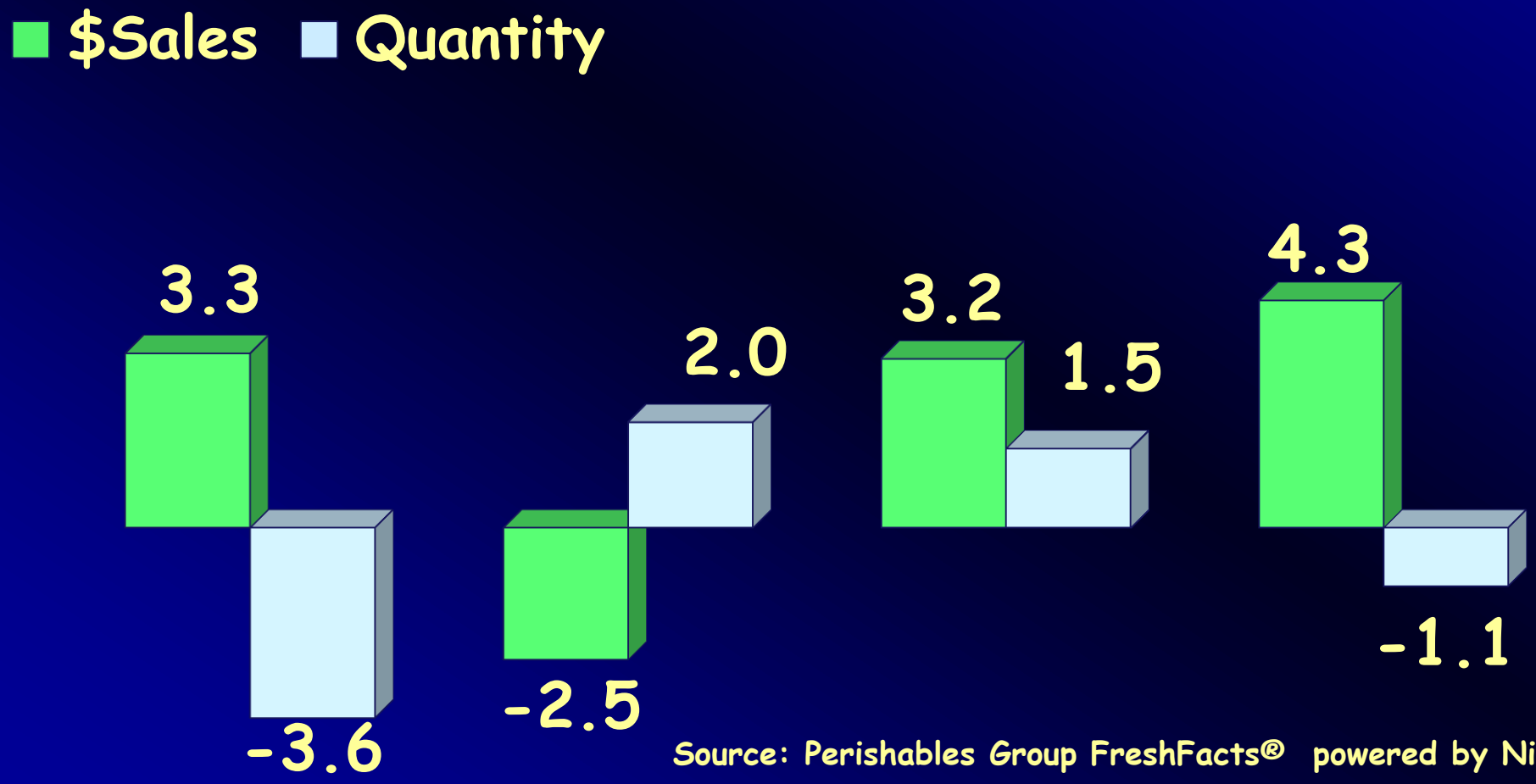
Note: Only 167 total trips to all food retail stores in 2001 v. 147 in 2011! (including club stores, supercenters, grocery stores and all other formats).

Recession Impacts on Fresh Produce Sales

USA Select Supermarket* Fresh Produce Dept. Performance During the Economic Downturn, % Change vs. Prior Year

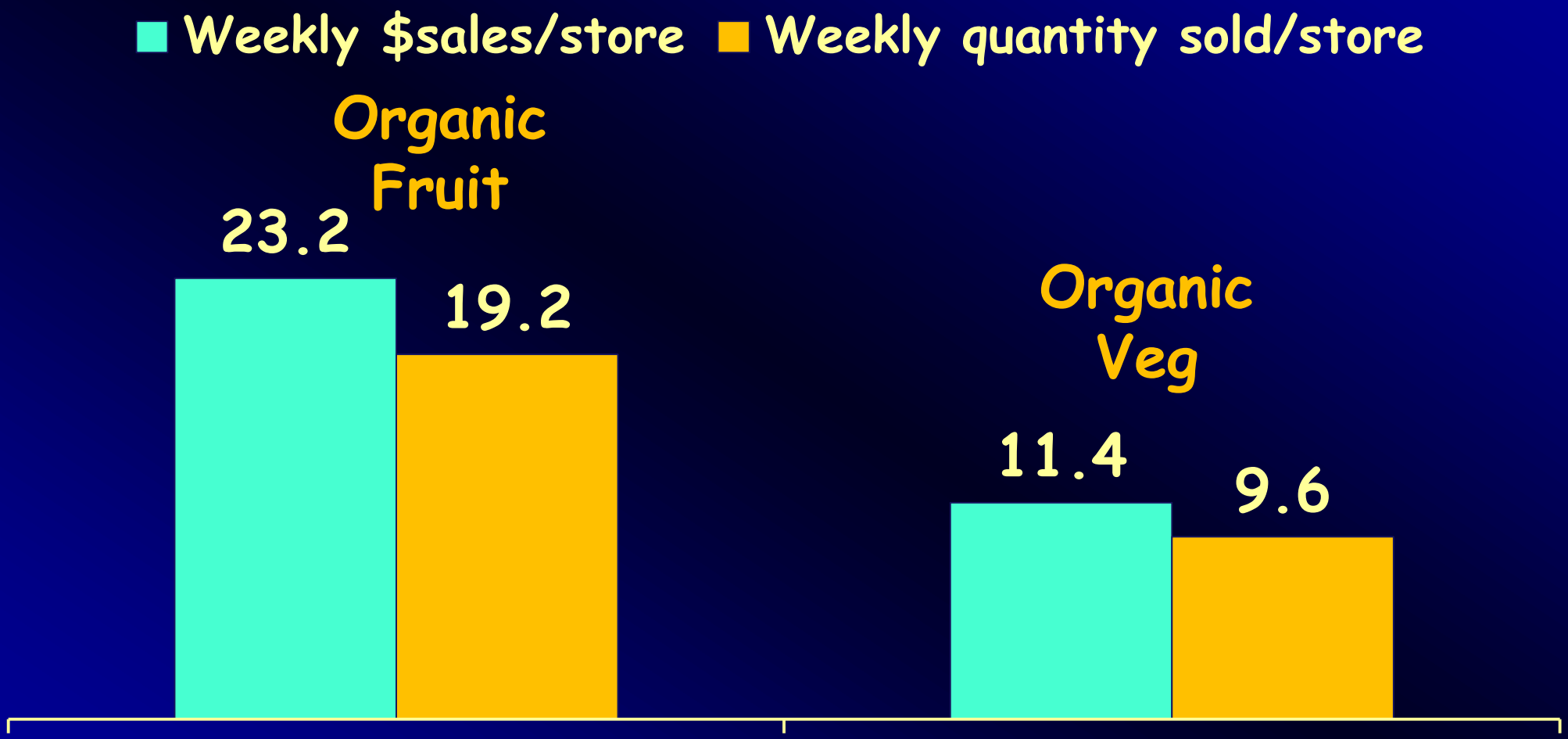
*Excludes club stores, supercenters, part of conventional grocery and other alternative formats, not same store sales.

2008	2009	2010	2011



Source: Perishables Group FreshFacts® powered by Nielsen

US Select Supermarket* Organic Fresh Produce Performance, % Change Q4 2010 to Q4 2011; Organic produce=4.9% of total produce sales (3.3% of veg and 1.6% of fruit).



*Excludes club stores, supercenters and other alternative formats.

Source: FreshFacts® on Retail, Q4 2011, Perishables Group/United Fresh Foundation.

Retailer Sustainability Efforts, 2011

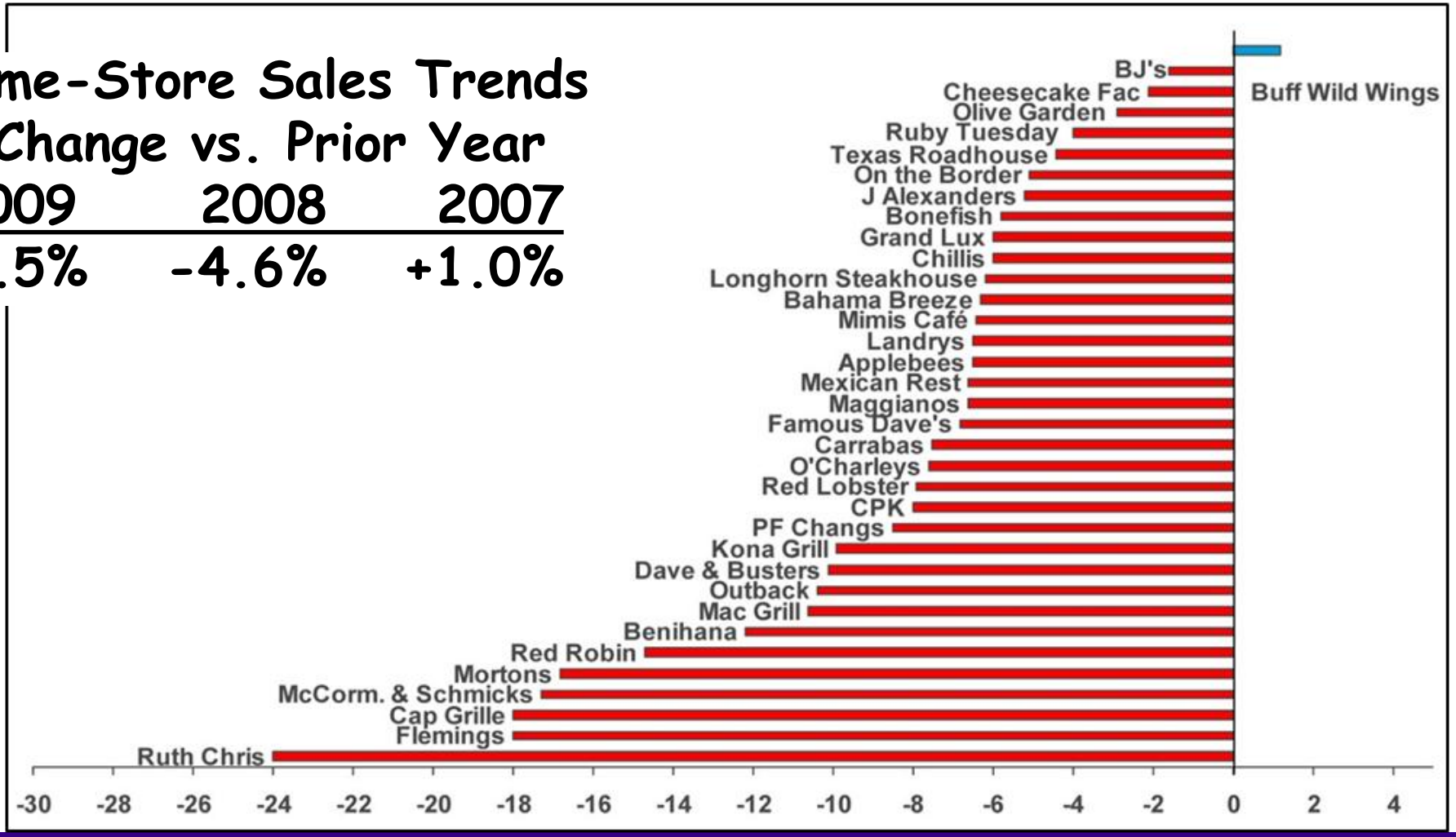
"Neither retailers' nor suppliers' environmental and sustainability efforts have been negatively impacted by the recessionary pressures. In addition to the environmental concerns, retailers and suppliers are learning to leverage the demand for energy-efficient, organic, sustainable, environmentally friendly and socially conscious products and services. As such, sustainable practices can help retailers gain a competitive advantage or develop a positive public image — as well as achieve operational efficiencies generated by internal practices such as waste reduction and energy-efficiency."

Source: US Grocery Shopper Trends 2011, FMI

Q3 2009 Same-Store Sales Growth Rates for Selected U.S. Full-service Restaurant Chains

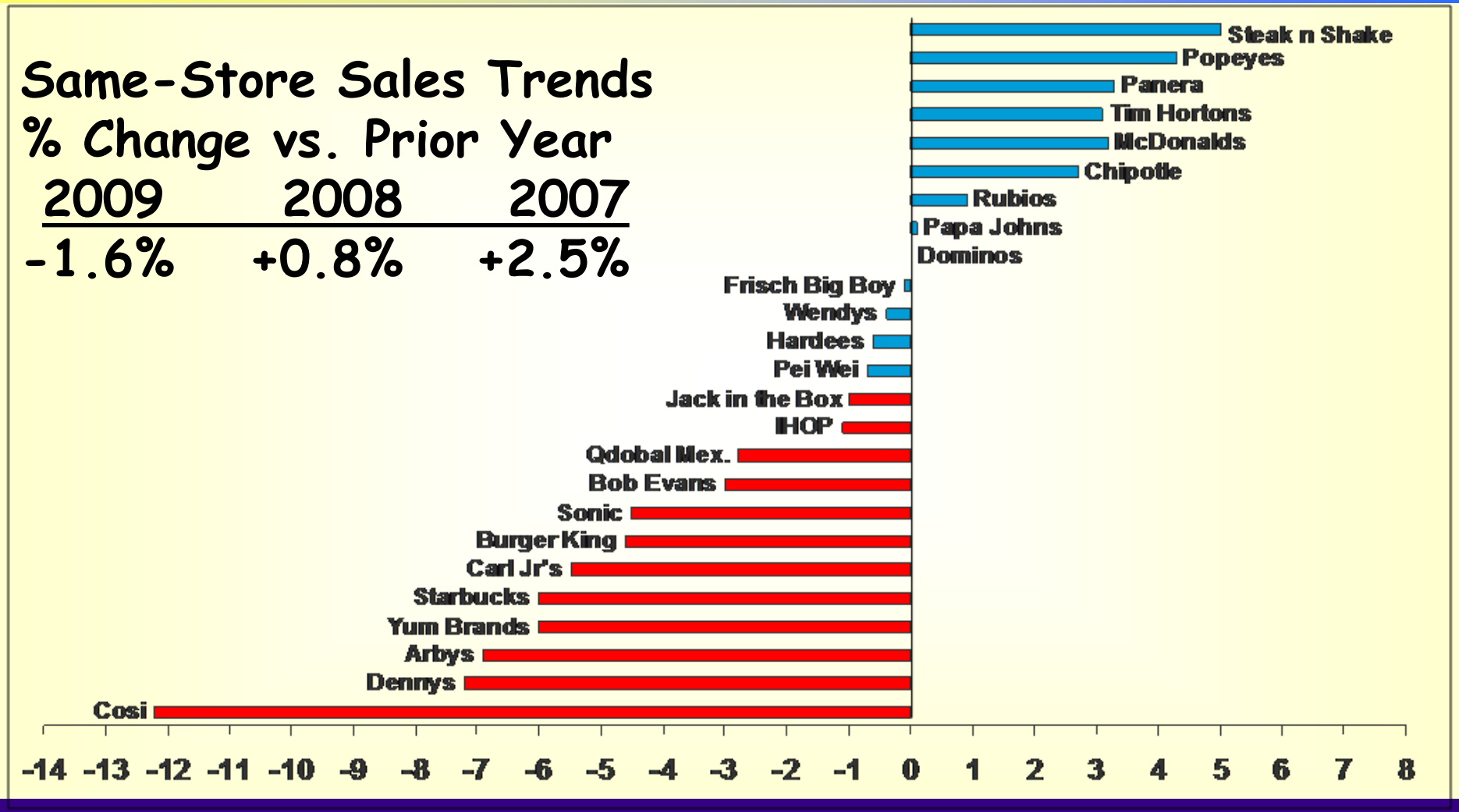
Same-Store Sales Trends
% Change vs. Prior Year

2009	2008	2007
-8.5%	-4.6%	+1.0%



Source: Nielsen Economic Advisor Company Reports - NRN (Nov 16, 2009); Latest Quarter.

Q3 2009 Selected Fast Casual/Family Dining/QSR Same-Store Sales Growth Rates



Source: Company Reports - NRN (Nov 9, 2009); Latest quarter, except last four weeks for McDonald's, Carl's Jr, and Hardees.

Foodservice Trends

- The focus on farm-to-table and local, sustainable foods will lead to a new spirit of authenticity on menus of all types.

- Continued pressure on food costs will inspire operators to look at more cost-effective ways to create signature dishes. Often this means adding fruits and veg, including unusual varieties or traditional items grown for excellent flavor.

Source: Synergy Restaurant Consultants, June 19, 2012.

Foodservice Trends

- Social media and internet-based technology will transform the face of restaurant marketing and operations. Yelp!
- Bars-with-ambitious-menus and restaurants-with-serious-cocktail-programs will continue to blur the lines between the two segments.
- Growth in fruit/veg in schools, universities

Source: Synergy Restaurant Consultants, June 19, 2012.

McDonald's Introduces Oatmeal with RTE Fresh Blueberries to 14,000 stores: blueberry banana nut oatmeal (May 2012)

Supply Chain Imperatives

- Streamlining the supply chain, improve vertical coordination, identify mutually beneficial strategies and tactics, e.g., promotions, packaging, logistics
- Identifying which activities add more value than cost
- Eliminating non-value-adding activities
- Decreasing internal operational inefficiencies – due to lack of ERP's and underutilization of BI they are often hidden or not considered important enough to attract attention in more favorable markets – but with margin squeeze they count
- Sustainability/social responsibility goals, metrics and verification will become more important and some firms will seek competitive advantages until it is standardized
- Same goes for traceability and food safety expectations and requirements; foodservice has led in food safety; and there is a growing and more active government role

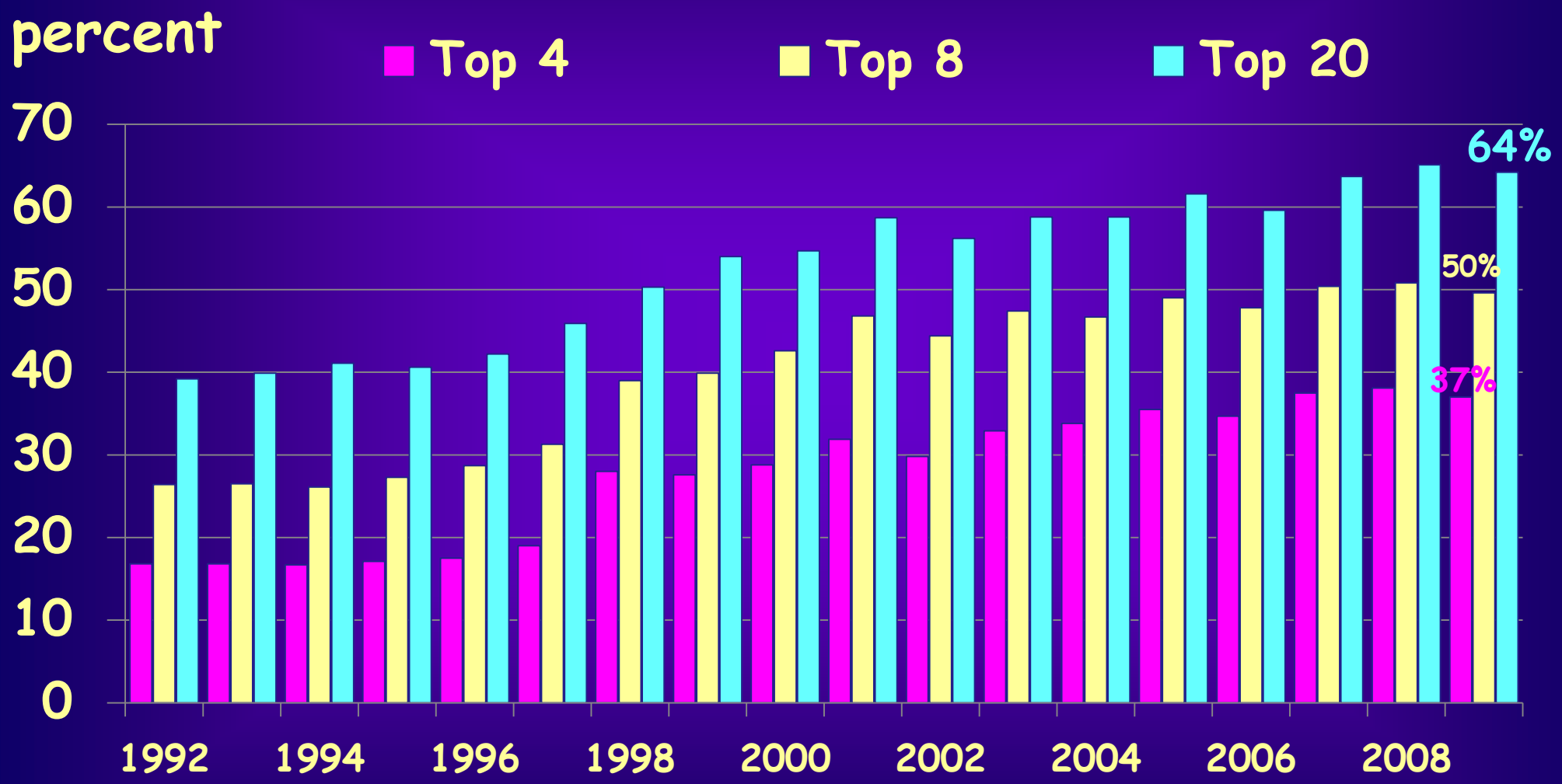
Market Structure

USA Vegetable Farm Structure, 2007

- 69,100 total vegetable and melon farms, of all sizes.
- 13,824 vegetable and melon farms with sales over $50,000/yr. each., including:
- 4,908 farms each selling >$1million account for 7.5% of total veg/melon farms and contribute 84% of total value.
- 1,109 California farms selling >$1million contribute 36% of US total veg sales

Source: 2007 Census of Ag, USDA (most recent census)

Market Shares of Top 4, 8 and 20 U.S. Grocery Chains, Share of U.S. Grocery Sales Excluding Club Stores, 1992–2009



Source: Phil Kaufman, USDA/ERS, 2010.

Consolidation of the Fresh Produce Value Chain

- Higher retail concentration levels have led to shipper consolidation; larger shippers are better equipped to offer services (incl. food safety, traceability, data-based sales and marketing support, consumer insights).
- Scale is increasingly important – investment capabilities and competitive wherewithal.
- Access to the top chains is controlled by yr-round large shippers (import in off-season).
- Fewer, larger buyers have enabled leading shippers to reduce their customer lists and to focus more on understanding the needs of key accounts – becoming account-driven.

Estimated Number of U.S. Retail Firms, and Fresh Produce Grower-Shippers*

Retail Chains (10 or more stores), 2010	138
Retail Chains/Club Stores/Dollar Stores with 100 or more stores, 2010, actual	40
Total US Grower-shippers, 2011 (includes some distributors and importers that also have the shipper classification in the Blue Book)	3,214
shippers in California (several also operate in FL)	1,259
shippers in Florida (several also operate in CA)	465
US Blueberry Grower-shipper top 4 share of sales, 2011	around 40%
US Strawberry Grower-shipper top 4 share of sales, 2011	50%+

Sources: Bluebook online queries June 2011 for shippers, and Planet Retail queries by Cook, March 18, 2011.
*Subject to over-counting as some firms are listed in multiple categories or locations.

US Grocery Sales, Store Numbers and Market Share of Total Grocery Sales, by Store Format, 2010, and Projected Share, 2015

Traditional Grocery Channel

	2010 Sales $Million	2010 No. of Stores	2010 % of Sales	2015 % of Sales
Total Traditional	$480,139	40,333	46.8	43.9
Conven. Supermkt	$412,200	26,583	40.2	34.1
Fresh Format	$9,308	886	0.9	1.6
Ltd Assortment	$27,096	3,567	2.6	4.6
Super Warehouse	$19,694	596	1.9	2.4
Other (small groc.)	$11,841	8,703	1.2	1.2

Source: The Future of Food Retailing, Willard Bishop, June 2011

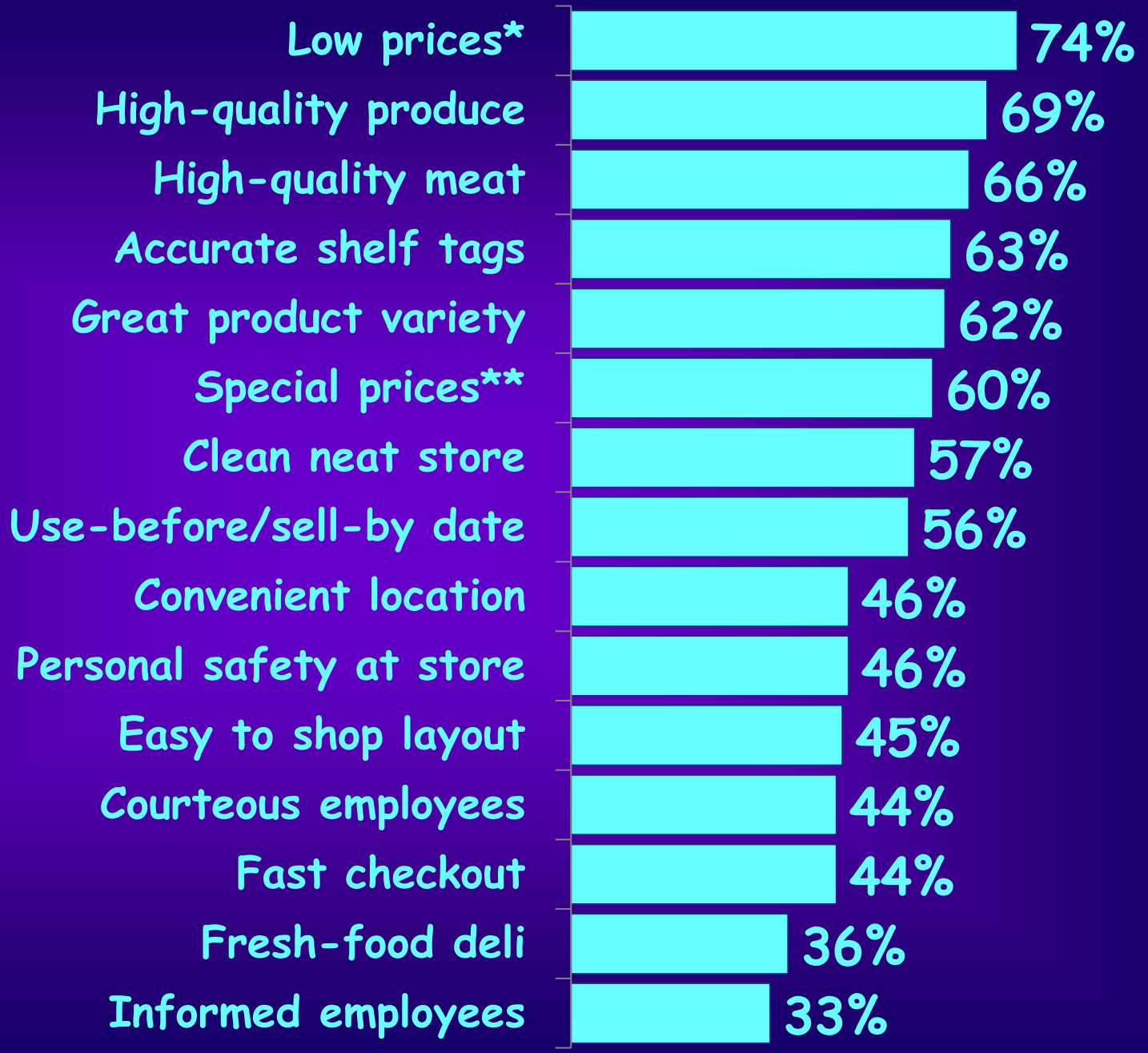
US Grocery Sales,* Store Numbers and Market Share of Total Grocery Sales, by Store Format, 2010, and Projected Share, 2015

Nontraditional Grocery Channel

	2010 Sales $Million	2010 No. of Stores	2010 % of Sales	2015 % of Sales
Total Nontrad'l	$387,530	54,235	37.8	40.4
Supercenter	$174,457	3,504	17.0	20.3
Wholesale Club	$85,618	1,319	8.3	9.1
Dollar Store	$21,493	23,418	2.1	2.0
Drug	$56,053	22,227	5.5	5.8
Mass	$44,983	3,583	4.4	2.7
Military	$4,925	183	0.5	0.5

*Grocery sales only (includes food and non-food); excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines.
Source: The Future of Food Retailing, Willard Bishop, June 2011

Top Factors in U.S. Consumer Selection of Primary Supermarkets 2011



*Was 64% in 2007
**Was 55% in 2007

Source: FMI Grocery Shopper Trends 2011

Top Twenty USA Grocery Firms: Grocery-equivalent Sales Only in US Market (not total firm sales), 2010

		Sales (million $)			Sales (million $)
1	Walmart	137.11	11	HE Butt	11.54
2	Kroger	64.06	12	Seven & I	8.26
3	Costco	32.48	13	Meijer	8.22
4	Safeway	28.46	14	Whole Foods Market	7.44
5	SuperValu	28.20	15	Giant Eagle	7.23
6	Publix	20.84	16	Dollar General	6.98
7	Ahold	19.61	17	Tengelmann	6.88
8	Delhaize Group	15.78	18	BJ's Wholesale Club	6.49
9	Target	14.02	19	Winn-Dixie Stores	6.05
10	Aldi	12.27	20	The Exchange	5.80

Source: Planet Retail, online queries, October 2011.

SKU RAT and Other Supply Chain Trends

US Retailers Seeking Efficiency Gains

- In this recession all retailers have to take control of store operating expenses, only a few of which are variable.
- Labor, assortment and inventory are targets; in the past reducing assortment was not considered an option whereas today it is a major focus.
- SKU Rationalization (RAT) can decrease labor, inventory and hence capital costs required to operate stores. However, it may lower sales if top shoppers are alienated – lessons learned in 2010.
- One-stop shopping model being reconsidered.

Source: Willard Bishop Competitive Edge, September 2009

Rethinking Optimal Store Sizes

- Today shoppers seek store formats with more defined value equations to meet specific trip need states – so less need for one-stop shopping formats.

- In a 55,000 ft^2 store nearly all of the sales contribution is achieved with 70% of the SKUs, most of the remainder lose money.

- The most common footprint for a "typical" US supermarket is 50-60,000 ft^2 whereas optimal store size may be 39,000 ft^2.

Source: Willard Bishop Competitive Edge, October 2010

Rethinking Optimal Store Sizes

- Departments (e.g., general merchandise and HBC) that were expanded 30 years ago to support a one-stop shopping environment and grow same-store sales and margins are no longer contributing their fair share yet they often remain large.

- Dominant model of one-stop shopping shifting to include smaller formats – most chains experimenting; limited assortment stores like Trader Joe's, Aldi's, Save-A-Lot and new entrants - Tesco's Fresh & Easy model.

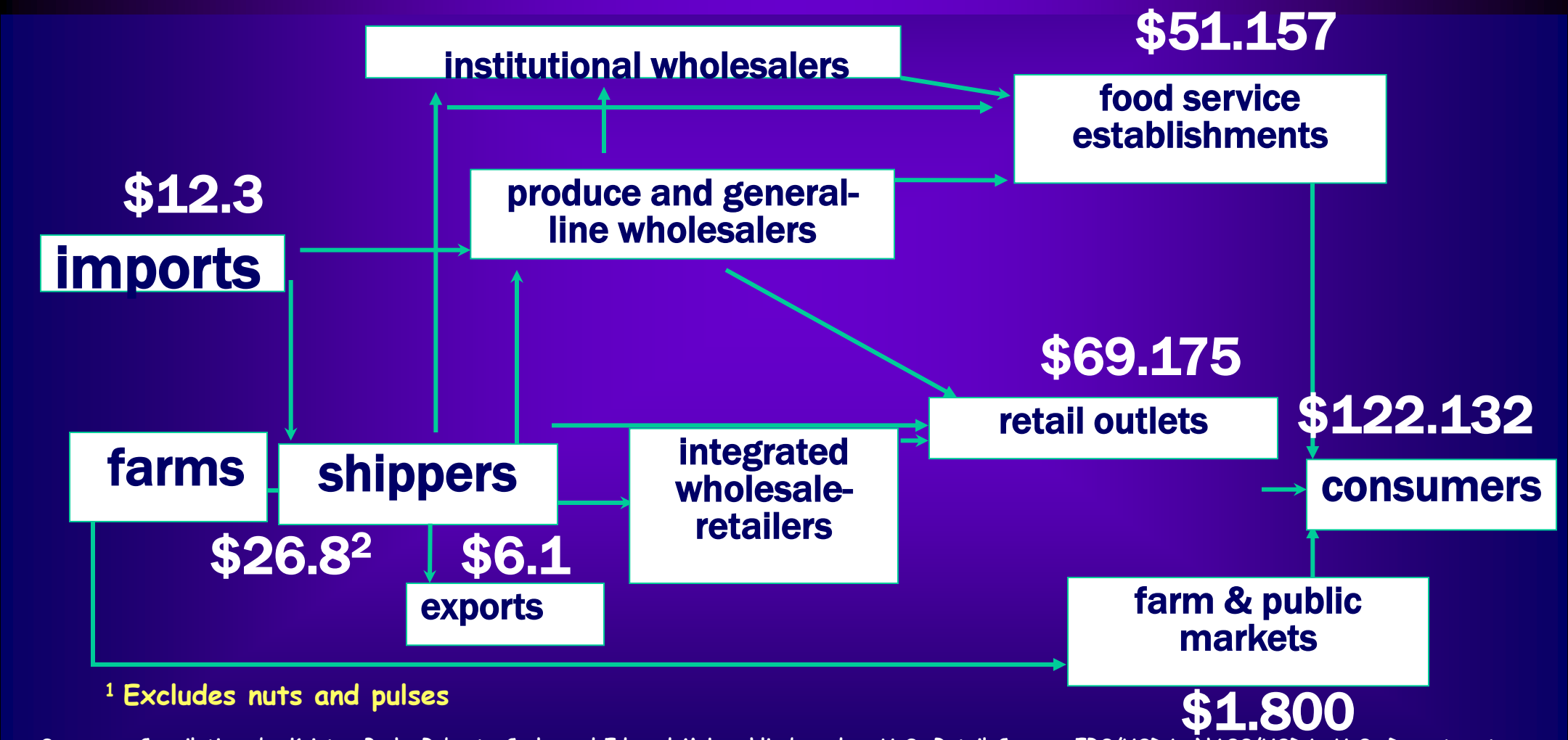
Source: Willard Bishop Competitive Edge, October 2010

Walmart Global Sustainability and Social Responsibility

- Aims to cut food waste by 15% in its emerging market stores and clubs and by 10% in the U.S. and other developed markets.
- Walmart Market format ranges from 30,000-60,000 ft^2 and provides a wider assortment of fresh grocery, bakery and delicatessen.
- Walmart Express stores are less than 30,000 $ft^2$and focus on a broad assortment of brands at everyday low prices, selling grocery, pharmacy and limited general merchandise.
- These store formats target "food deserts" and underserved areas in urban areas, bringing more affordable grocery prices and fresh food to urban consumers in more convenient locations. Multi-channel strategy allows Walmart to continue to grow as it approaches maturity of the supercenter format, with a bonus of gaining political points.
- Attempting to expand local sourcing of fresh produce to $1B in the US, reaching 10% of purchases.

Fresh Produce Value Chain

U.S. Fresh Fruit and Vegetable[1] Value Chain, Estimated Dollar Sales, Billions, 2010



[1] Excludes nuts and pulses

Sources: Compilations by Kristen Park, Roberta Cook, and Edward McLaughlin based on U.S. Retail Census, ERS/USDA, NASS/USDA, U.S. Department of Commerce, and other data.

[2] This value is larger than the value reported in table 1 since it includes an estimated value for production not captured by NASS/USDA.

Some Fresh Produce Basics

- Fresh produce items are consumer-ready products, directly impacted by food marketing trends.

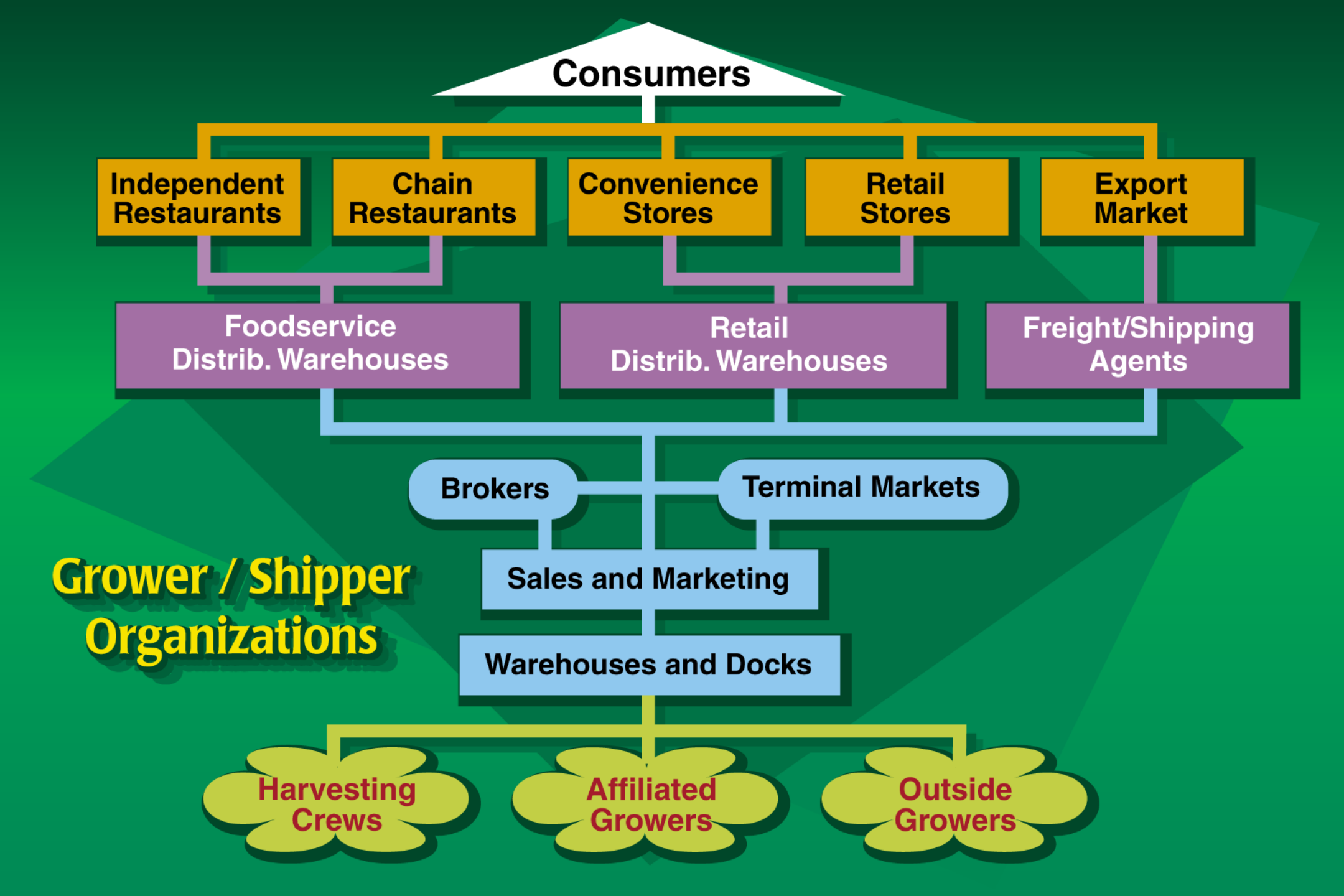
- Shipping patterns are largely determined by seasonality and ideal growing locations by season by product (rainfall, humidity, elevation, soil types, temp.), distance to market, technical production and postharvest requirements (e.g., ethylene, can't ship tomatoes with leafy greens).

- Produce is generally harvested and shipped daily and daily changes in weather can affect both supply and demand, making markets very volatile; combined with high production costs markets are very risky and prices may not always cover total costs – requires substantial capitalization to withstand low markets.

Leading US Fresh Market Vegetable States in 2011: Geographic concentration of production (due to climate) limits local sourcing potential, yet it is growing in the summer/fall

Area Harvested		Production		Value	
State	% of Total	State	% of Total	State	% of Total
CA	44	CA	50	CA	50
FL	11	FL	9	FL	13
AZ	7	AZ	8	AZ	11
GA	6	GA	4	WA	4
NY	3	WA	4	GA	3

Source: Vegetables 2011 Summary, NASS/USDA


Consumers
Independent Restaurants
Chain Restaurants
Convenience Stores
Retail Stores
Export Market
Foodservice Distrib. Warehouses
Retail Distrib. Warehouses
Freight/Shipping Agents
Brokers
Terminal Markets
Sales and Marketing
Warehouses and Docks
Harvesting Crews
Affiliated Growers
Outside Growers
Grower / Shipper Organizations


SACRAMENTO VALLEY
CENTRAL COAST
SAN JOAQUIN VALLEY
SOUTH COAST
DESERT
SALINAS VALLEY

Fresh Produce Marketing

- Most growers rely on shippers to market their products, most of which are family-owned forward-integrated grower-shippers, most of which market not only their own production but that of other growers.
- This enables smaller growers to market in mainstream channels (via shippers).
- For products that are shed packed (such as Ca. tree fruit) some growers may use one packer to pack the fruit and a packer-shipper to market it (not relevant for field-packed items).
- This may decrease vertical coordination and market signals.

Fresh Produce Marketing

- Growers and shippers are price takers, they typically are not large enough to set prices.
- Growers receive the residual of the market price less marketing charges, pick, pack and harvest, palletization, in some cases cooling, and other handling charges and mandated-marketing or other institutional fees (e.g., CLGA, commission or marketing order charges).
- Sometimes there is no return to the grower (production costs are not recouped).
- Perishability makes markets and returns volatile.

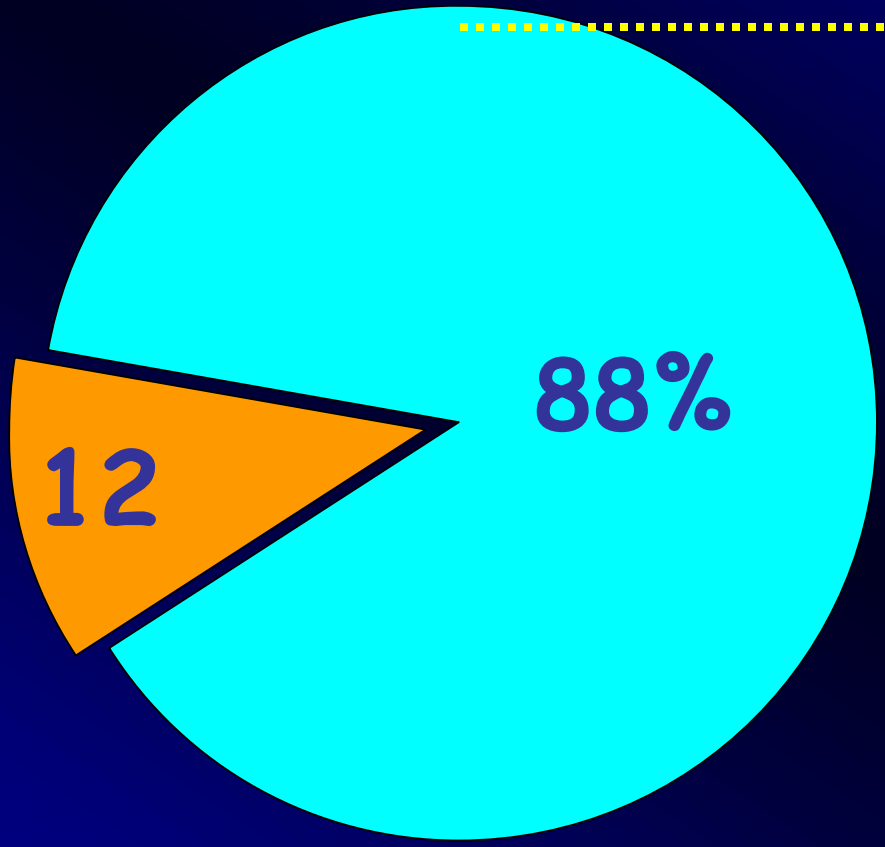
Consumer Trends and Organics and Sustainability

Over the past decade, consumers have been redefining quality across virtually every food and beverage category

Yesterday	Today	Emerging
Scientific →	Organic, natural	
Processed →	Fresh / less processed	
Industrial →	Local, personal	
Engineered →	→	Real, authentic
For personal health →	→	For personal wellness For community health

Source: The Hartman Group and PMA, Identifying Consumer Trends in the Produce Category, 2010.

The Consumer World of Sustainability



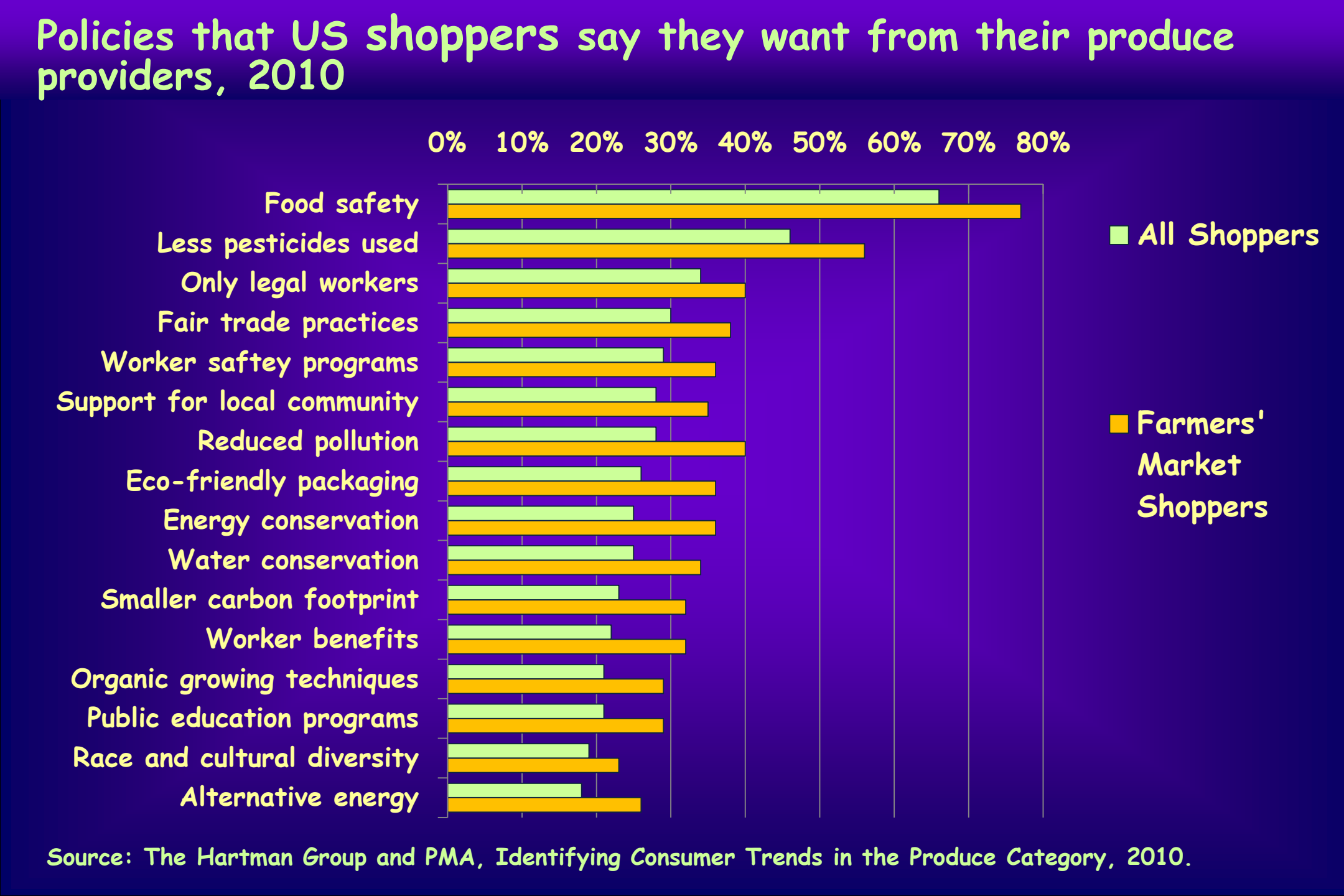
Core 13%

Mid-Level 66%

Periphery 21%

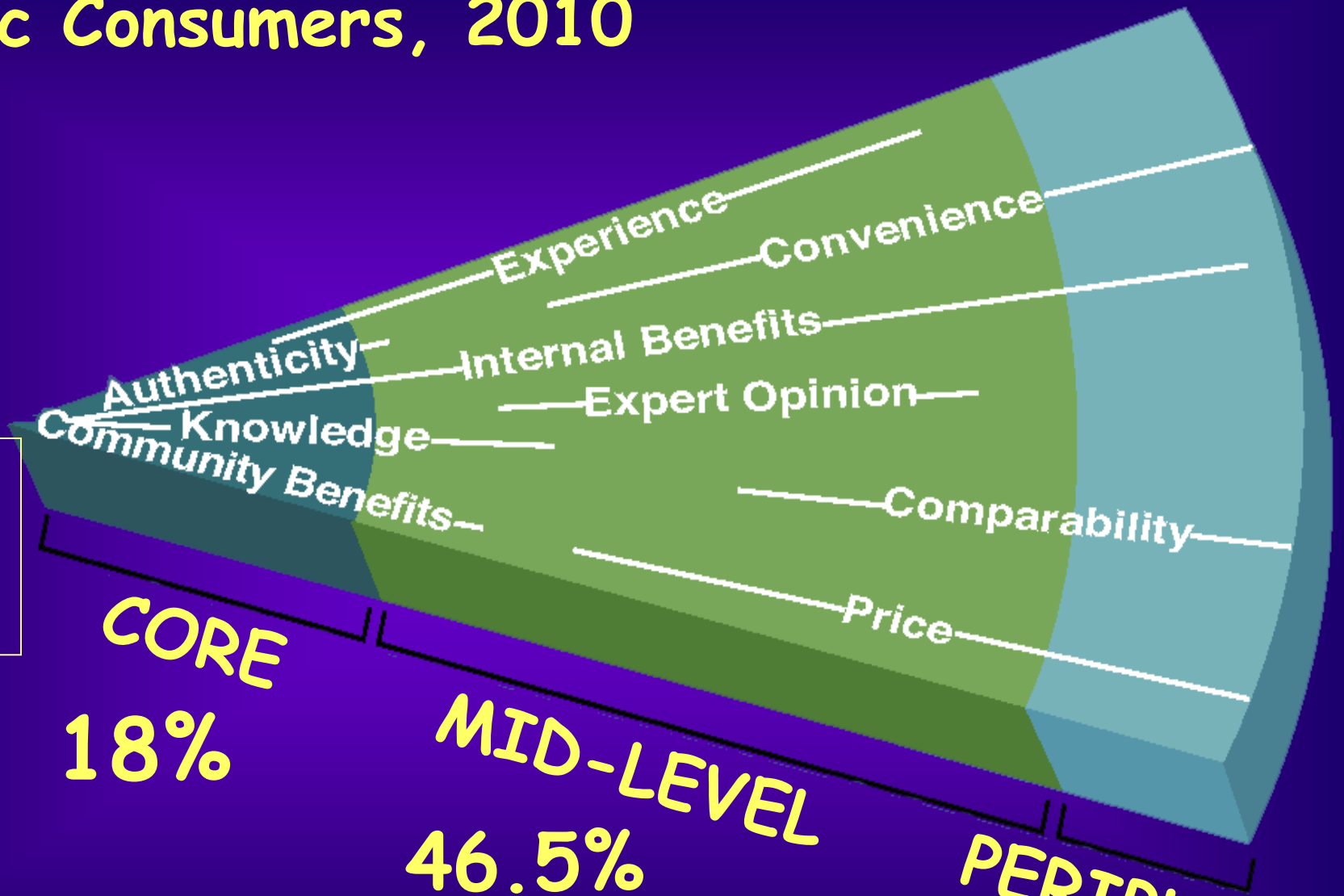
Source: The Hartman Group Sustainability 2008 Survey, Sept. 2008 (n=1,856)

Policies that US shoppers say they want from their produce providers, 2010



Source: The Hartman Group and PMA, Identifying Consumer Trends in the Produce Category, 2010.

Hartman Organizes the World of US Organic Consumers, 2010



25% don't purchase organics

Source: Beyond Organic & Natural report, The Hartman Group, Inc. February 2010

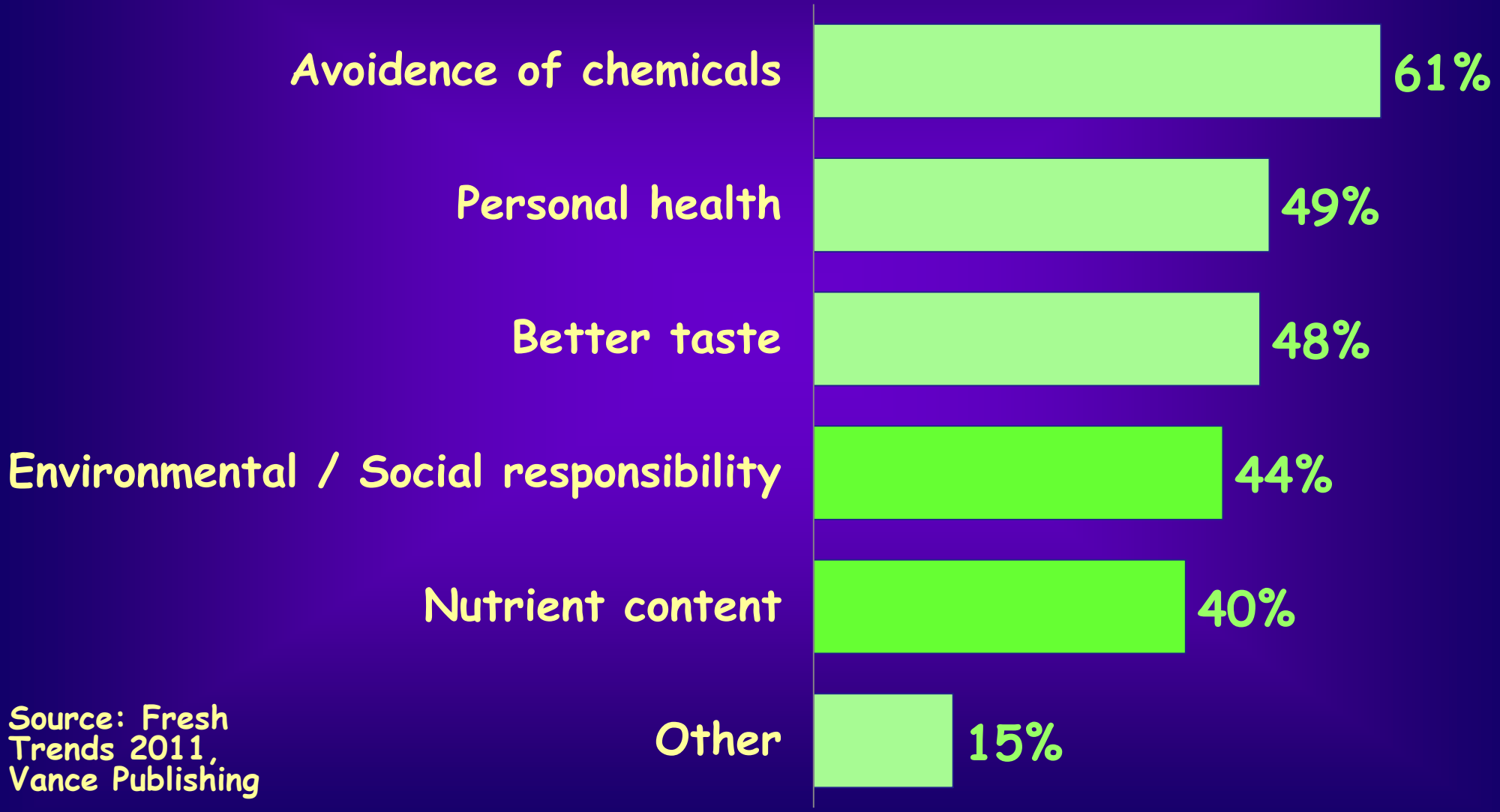
Index of US Organic Fresh Produce Consumption by Spectra Lifestyle/Behavior Stage, 2010, All Channels

Very High 150+ | High 120-150

Behavior / Stage	LIFESTYLE: Cosmopolitan Centers	Affluent Suburban Spreads	Comfortable Country	Struggling Urban Cores	Modest Working Towns	Plain Rural Living	Total	% Volume
Start-up Families HHs with young children only <6	137	170	106	123	116	92	123	10.6%
Small Scale Families Small HHs with older children 6+	118	131	79	73	90	76	93	8.7%
Younger Bustling Families Large HHs with children (6+), HOH <40	106	127	89	83	89	82	94	7.0%
Older Bustling Families Larger HHs with children (6+), HOH 40+	87	117	87	68	78	82	90	9.8%
Young Transitionals Any size HHs, no children, <35	115	137	81	78	85	75	93	9.9%
Independent Singles 1 person HHs, no children, 35-64	96	74	109	110	78	65	87	10.7%
Senior Singles 1 person HHs, no children, 65+	86	68	72	71	78	70	74	6.8%
Established Couples 2+ person HHs, no children, 35-54	136	172	122	155	97	87	125	13.9%
Empty Nest Couples 2+ person HHs, no children, 55-64	164	146	131	85	117	90	124	12.2%
Senior Couples 2+ person HHs, no children, 65+	119	135	88	74	99	74	97	10.6%
Total	115	130	98	93	91	79	100	
Percent Volume	15.3%	22.7%	17.8%	11.2%	16.0%	17.1%		

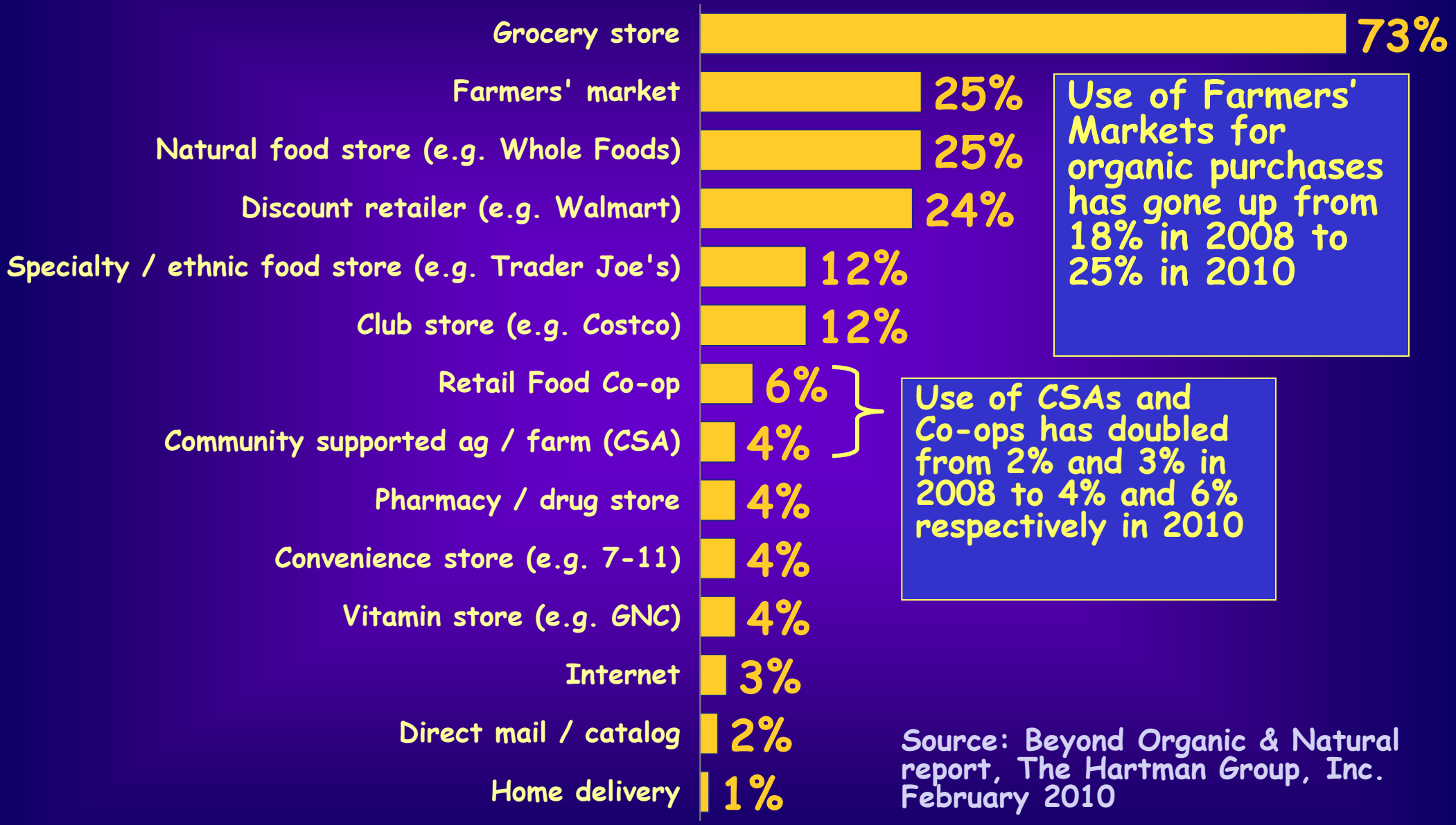
Source: Spectra BehaviorScape: Total Consumption/Spectra 2010 Jan/Homescan Product Library

US Consumer Reasons for Buying Organic Fresh Produce, 2011



Source: Fresh Trends 2011, Vance Publishing

Where do you buy organic?

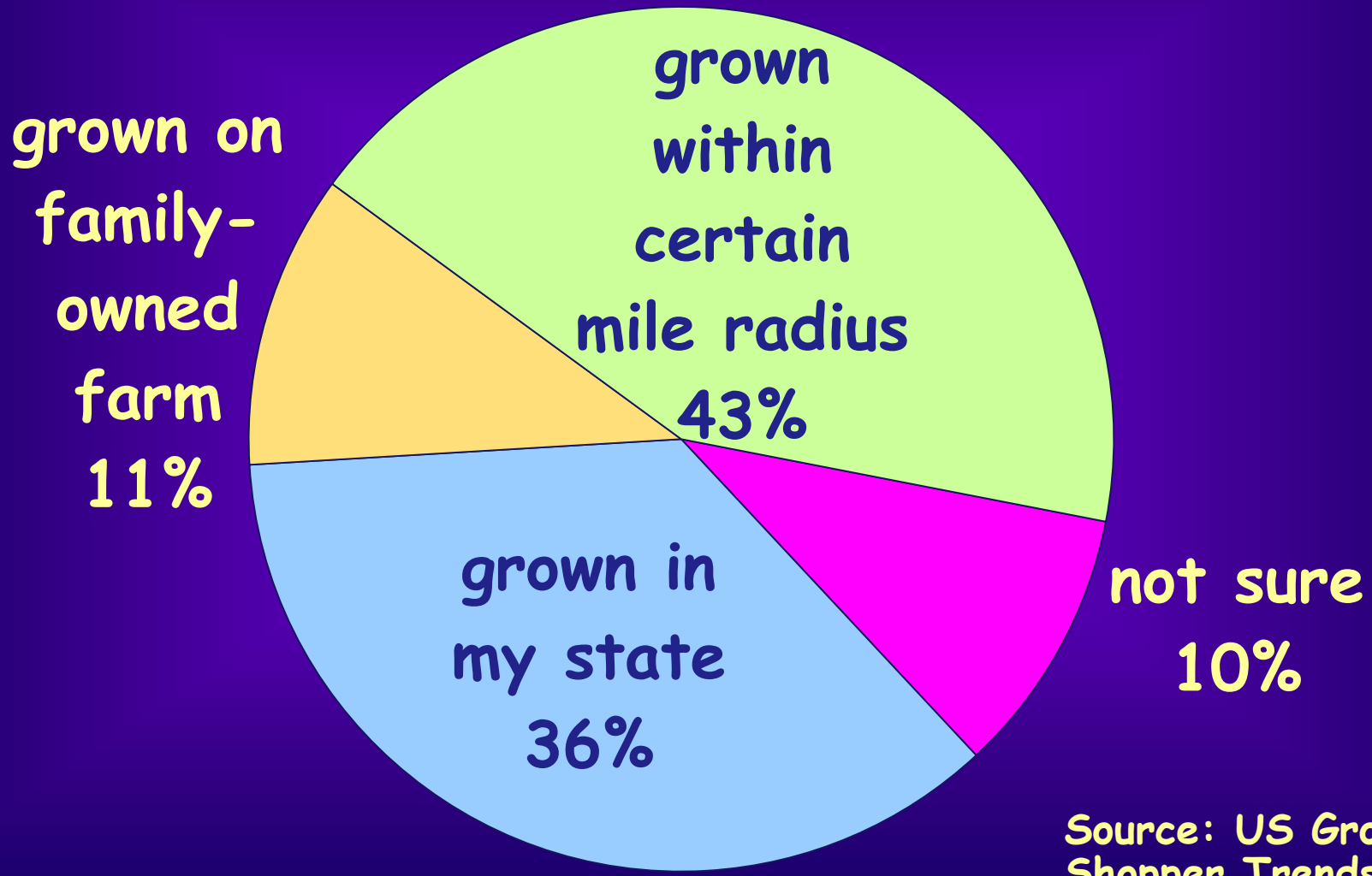


Use of Farmers' Markets for organic purchases has gone up from 18% in 2008 to 25% in 2010

Use of CSAs and Co-ops has doubled from 2% and 3% in 2008 to 4% and 6% respectively in 2010

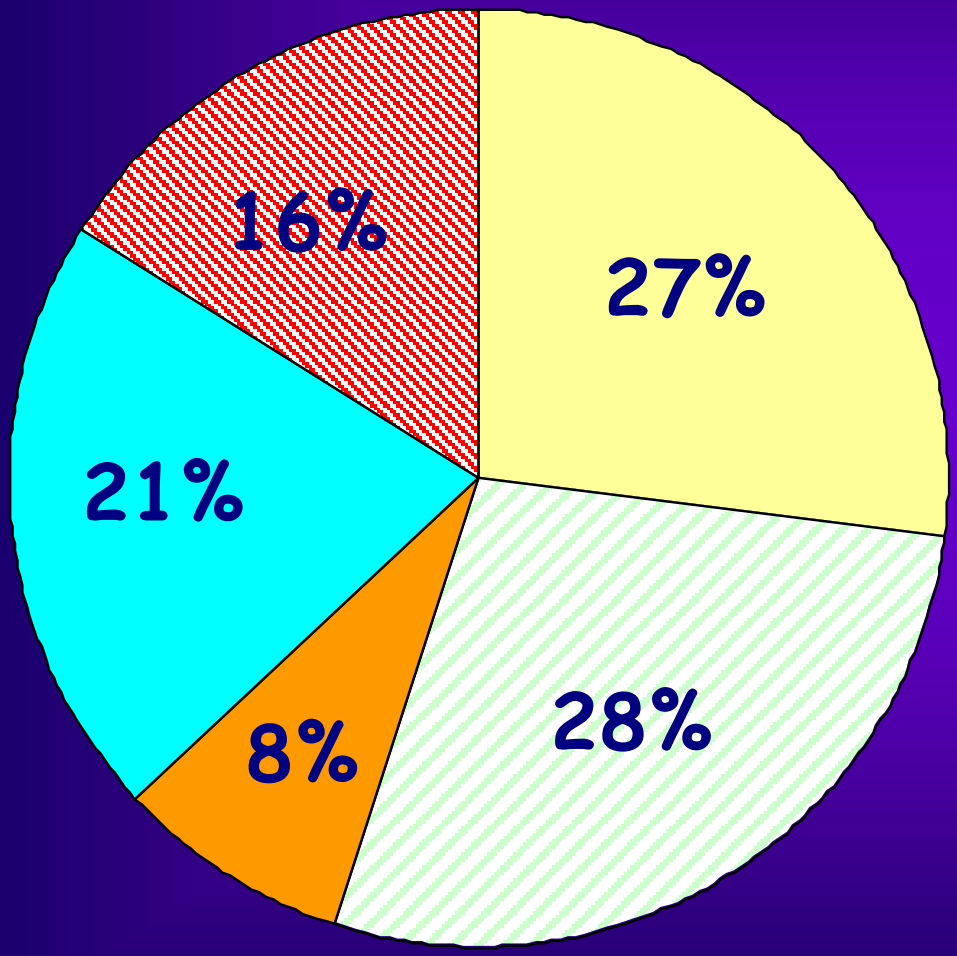
Source: Beyond Organic & Natural report, The Hartman Group, Inc. February 2010

Definition of "Locally Grown" Products according to Shoppers



Source: US Grocery Shopper Trends 2010, FMI.

Maximum Distance a Food Item Can Travel from Source to Store to Be Called "Local"



- 25 miles or less
- 26-50 miles
- 51-75 miles
- 76-100 miles
- More than 100 miles

Source: US Grocery Shopper Trends 2010, FMI.

Reasons for purchasing locally grown produce, 2011

Support local producers	49%
Freshness/quality	44%
Price/save money	39%
Taste	37%
Healthier	32%
Better for the environment	24%
Don't buy	12%

Source: Fresh Trends 2011, Vance Publishing

Reasons for purchasing locally grown produce, 2011

Freshness	83%
Support the local economy	68%
Taste	56%
Like knowing source of product	40%
Price	35%
Nutritional value	30%
Environmental impact of transporting food across great distances	27%
Appearance	27%
Long-term health effects	15%

Source: US Grocery Shopper Trends 2011, FMI

Becoming Marketing-Driven

- Becoming customer-centric.
- Understanding their needs will make you more competitive. What services and products represent an opportunity?
- Understanding that you will get there faster if you work together.
- Next level is to become consumer-centric.
- Consumer-centrism will increasingly be achieved via supplier-customer partnerships.
- Focus on internal efficiencies to be competitive!

Niche Market vs. Market Niche: Is there a difference? YES!

Niche market:

Unique w / narrow demand so customers have uniform views;

Insensitive to price changes so wide range for prices & markup;

Local market saturates very quickly when growers learn about sales opportunities.

Market niche:

Broad demand where customers have lots of close substitute choices;

Sensitive to price changes so price is very important to buyer;

Has price limits so really driven by cost & overall supply situation.

Source: Ed Estes, NC State

Niche Market and Market Niche Examples

Niche market:

organic produce a few yrs. ago

medicinal herbs

elephant garlic

microgreens

Specialty outlets

Demand dominates but often there is easy market saturation.

Market niche:

Broad demand where customers have lots of close substitute choices;

Greenhouse tomatoes

Yellow/orange peppers

Sweet onions

Seedless watermelon

Mainstream grocery

Supply availability & comparative price dominate buy decision.

Source: Ed Estes, NC State

Supplemental Information: More on the Food System and the Fresh Produce Value Chain

Total US Grocery Sales,* Store Numbers, and Market Share by Channel, 2010, and Projected Share, 2015

	2010 Sales $Million	2010 No. of Stores	2010 % of Sales	2015 % of Sales
Traditional	$480,139	40,333	46.8	43.9
Nontraditional	$387,530	54,235	37.8	40.4
Total C-Stores**	$158,546	152,513	15.4	15.8
GRAND TOTAL	$1,026,215	247,081	100.0	100.0

*Grocery sales only (food and nonfood); excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines. **Sales exclude gas.
Source: The Future of Food Retailing, Willard Bishop, June 2011

US Grocery Store Format Characteristics, 2010
Traditional Grocery Channel

	Total Store Area	Average Total SKUs	Average Weekly Sales $	Groc. & Consum. % Sales
Total Traditional			**$228,929**	**100**
Trad. Supermkt	52,500	45,600	$298,199	100
Fresh Format	34,100	20,500	$202,139	100
Ltd Assortment	15,600	1,900	$146,089	100
Super Warehouse	43,500	35,800	$635,863	100
Other (small groc.)	9,000	3,000	$26,166	100

Source: The Future of Food Retailing, Willard Bishop, June 2011

US Grocery Store Format Characteristics, 2010

Nontraditional Grocery Channel

	Total Store Area	Average Total SKUs	Average Weekly Sales $*	Groc. & Consum. % Sales
Total Nontraditional			**$137,411**	
Wholesale Club	133,400	4,900	$1,248,299	59%
Supercenter	181,800	100,000	$957,343	60%
Dollar	7,600	7,400	$17,649	66%
Drug	12,100	20,000	$48,497	34%
Mass	62,000	95,000	$241,424	23%
Military	29,400	15,000	$517,561	100%

*Grocery sales only (includes food and non-food); excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines.
Source: The Future of Food Retailing, Willard Bishop, June 2011

US Membership Club Industry, by Firm: Domestic Grocery and Fresh Produce Sales, and Firm Market Share, 2010 (excludes non-grocery sales)

	grocery sales ($ billions)	% share	produce sales ($billions)
Costco	$32.5	51.3	2.7
Sam's Club	$24.4	38.5	2.4
BJ's	$6.5	10.2	.5
TOTAL	$63.4	100.0	5.6

Source: Planet Retail online queries.

Walmart Grocery and Fruit and Vegetable U.S. Sales, by Format, 2010 (million $)

Banner	Fruit & Veg.	Groceries	Fruit & Veg. Share
Supercenter	$9,666.4	102,652.1	9.4%
Sam's Club	2,418.9	24,406.2	9.9%
Walmart	0.0	7,991.5	0%
Walmart Market	264.8	1,999.0	13.2%
Supermercado	4.4	34.8	12.7%
Marketside	4.7	24.5	19.3%
Total All Formats	12,359.2	137,108.1	9.0%

Source: www.planetretail.net, online queries

2010 Kroger *Grocery* Sales by Leading Banner*

Banner	Fruit & Veg.	Groceries	Fruit & Veg. Share
Kroger	4,760.5	38,449	12.4
Ralphs	756.9	5,826	13.0
Fred Meyer	481.9	5,565	8.7
King Sooper's	389.7	3,049	12.8
Food4Less	384.2	3,044	12.6
Smith's	375.2	2,972	12.6
Fry's	202.5	2,299	8.8

Source: www.planetretail.net, August 2010. *Excludes smaller banners.

2009 SuperValu Grocery Sales by Banner Type

Rank		million $
1	Albertsons	13,215
2	Save-A-Lot	4,410
3	Cub Foods	4,075
4	Jewel	3,301
5	Shaw's	3,019
6	Acme	1,926
7	Shop.Food & Pharmacy	1,719
8	Farm Fresh	1,446
9	Shop 'n Save	1,214
10	bigg's	862
11	Bristol Farms	348
12	Hornbacher's Foods	147
	Total	35,682

Source: planetretail.net, April 2010.

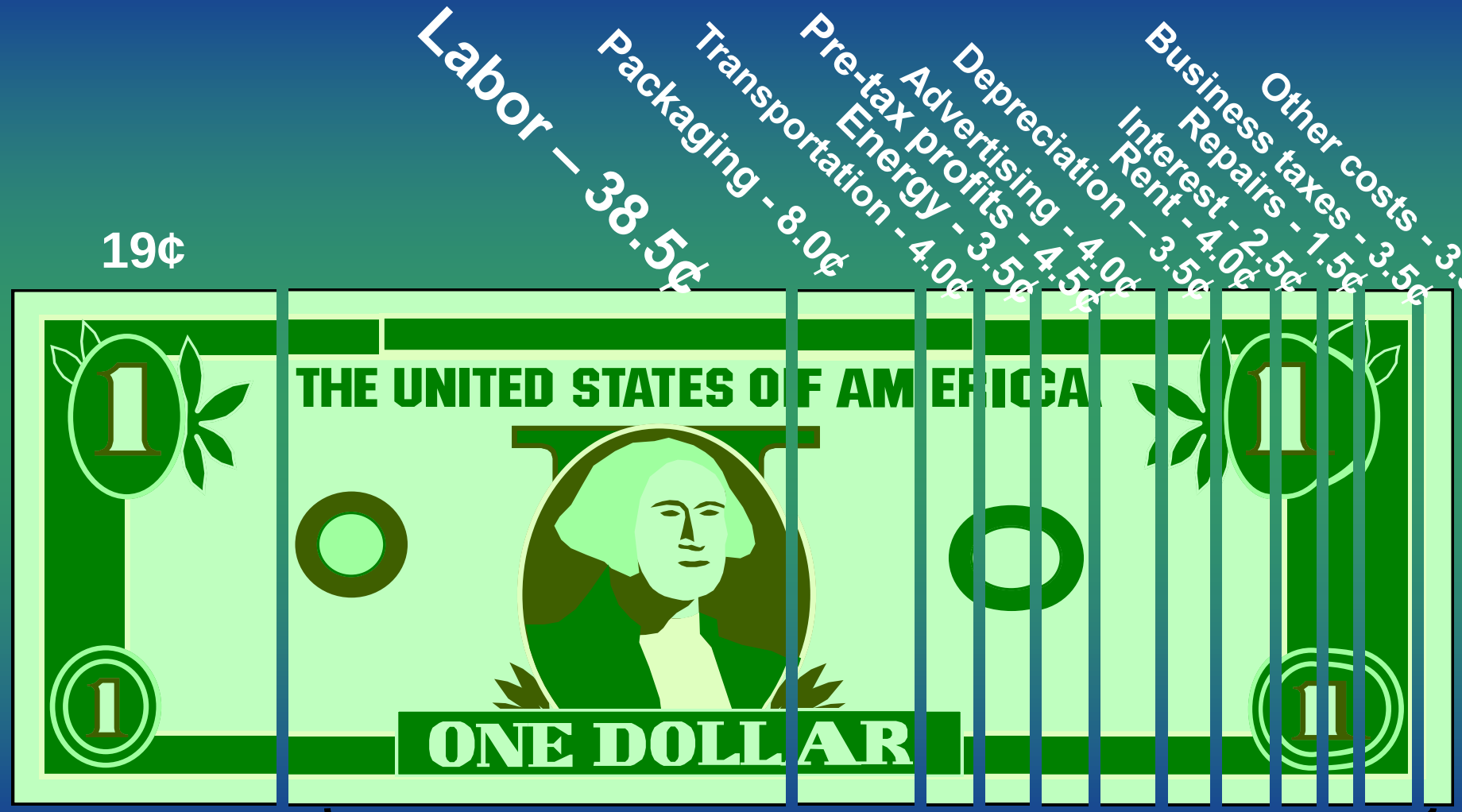
2009 Safeway Grocery Sales by Banner Type

Rank		Million $
1	Safeway	25,358
2	Vons	5,293
3	Randalls	3,117
4	Dominick's	2,144
5	Genuardi's Family Markets	954
6	Carrs Quality Centers	361
Total		37,227

Source: planetretail.net, April 2010.

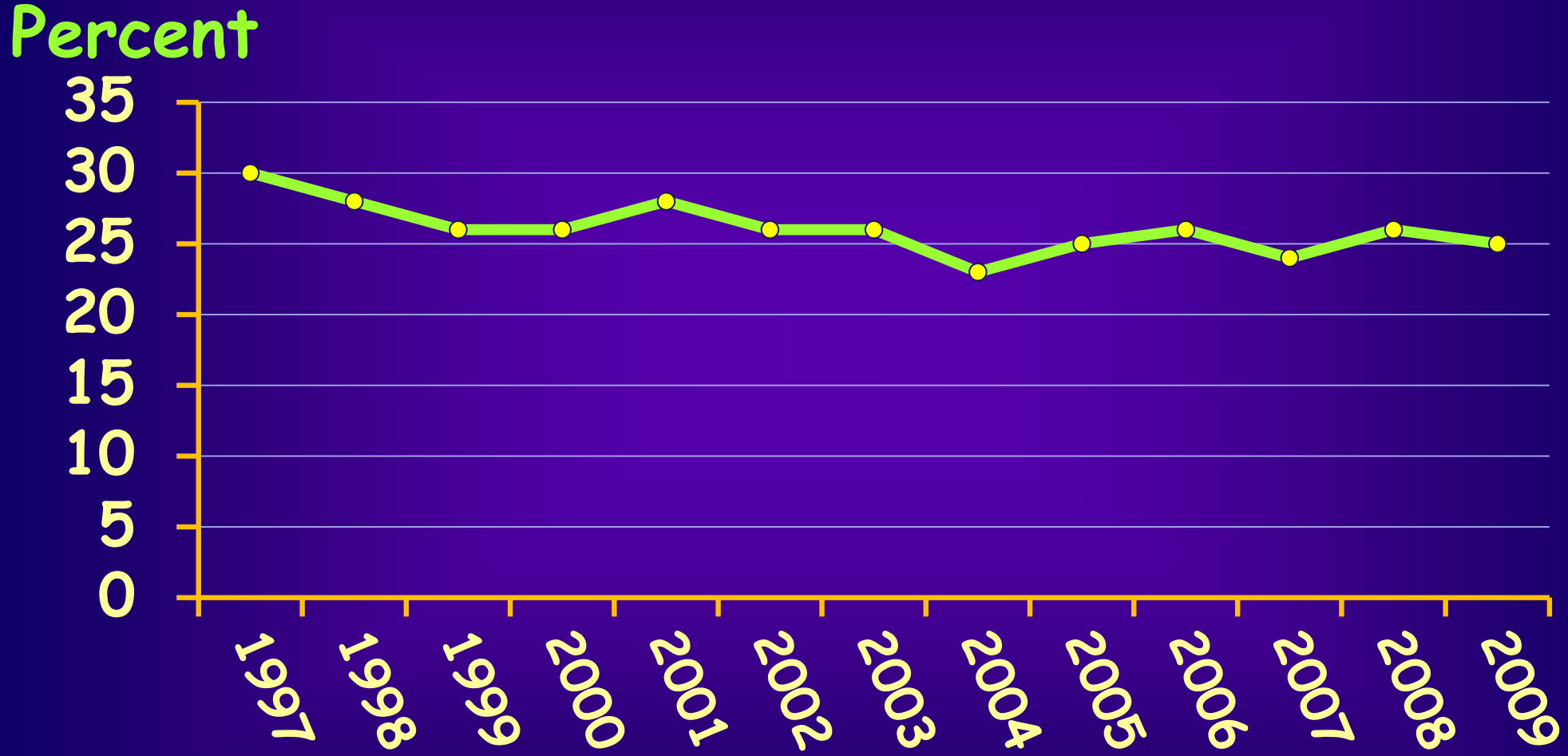
Marketing Margins and Some Pricing Basics

WHAT *a* DOLLAR SPENT *for* FOOD PAID FOR *in* 2006 in the USA



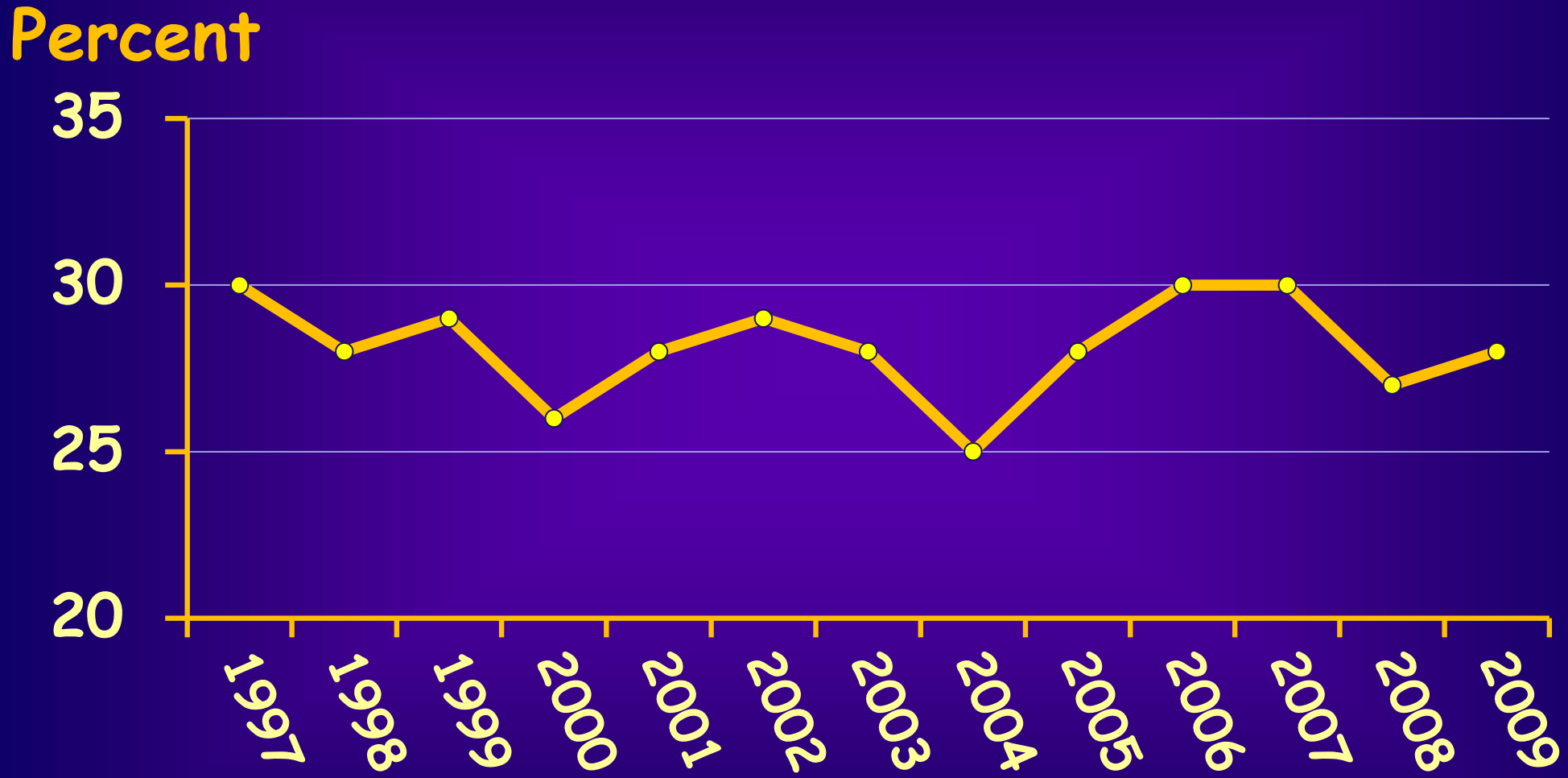
Source: Howard Elitzak ERS/USDA

U.S. fresh vegetables, 1997-2009, FOB farmgate price share of retail price



Source: USDA/ERS, new series, Gary Lucier.

U.S. fresh fruit, 1997-2009, FOB farmgate price share of retail price



Source: USDA/ERS, new series, Gary Lucier.

Retail Pricing Strategies

- Every Day Low Pricing (EDLP) or High-Low pricing are the two most common strategies.
- EDLP is generally used by new model retailers – supercenters, club stores – and generally margins are lower than for conventional supermarket chains. Costco margins never exceed 14%.
- EDLP operators emphasize contract vs. spot market buying but conventional retailers are also increasingly operating more on a partnership basis with key preferred suppliers with a program focus.
- Recently some conventional retailers moving to EDLP.
- Successful grower-shippers are increasingly account-driven so they can respond to either EDLP or High-Low pricing retailers accordingly.

Where does $1.00 in retail fresh produce sales go?

Source: Bruce Peterson, President, Peterson Insights, 2009

Retail Produce Department Pricing

- It's takes a 7% change in a retail price for a consumer to "sense" there has been movement.
- It takes a 10% change in retail pricing for a consumer to "think" about a behavior change.
- It takes a 15% change in retail pricing for a consumer to "act" and change behavior.
- So if the f.o.b. price declines buyers will generally take it in margin and it won't negatively impact quantity sold.
- Buyers are generally not held accountable for net margins/profit as the expense side is typically viewed as beyond their control.

Source: Bruce Peterson